

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item 10  
Agenda ID 14056  
RESOLUTION G-3500 (Rev. 1)  
July 23, 2015

**R E S O L U T I O N**

Resolution G-3500. San Diego Gas and Electric Company (SDG&E) requests approval of its proposed Field Parts Replacement Service on a Non-Tariffed Basis.

PROPOSED OUTCOME:

- This resolution approves SDG&E's A.L. 2322-G, which proposes a Field Parts Replacement Service program.

SAFETY CONSIDERATIONS:

- This resolution authorizes Field Parts Replacement Service on a Non-Tariffed Basis. SDG&E assures the California Public Utilities Commission (Commission) that all its field technicians will have the proper safety training and equipment. SDG&E remains subject to all of the applicable federal, state and local safety regulations.
- It is likely this resolution will have a positive safety impact because SDG&E customers will be given the option to have faulty gas appliance parts timely replaced and repaired by an SDG&E field technician.

ESTIMATED COST:

- Over five years, this program is expected to cost between \$1.7 and \$1.9 million.<sup>1</sup> Revenues for the same period are estimated to be between \$2.1 and \$2.3 million.<sup>2</sup>

By SDG&E Advice Letter 2322-G, filed on August 29, 2014.

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<sup>1</sup> SDG&E A.L. 2322-G at 3.

<sup>2</sup> *Id.*

## **SUMMARY**

This Resolution approves SDG&E's Advice Letter 2322-G proposing a Field Parts Replacement Service on a Non-Tariffed Basis. SDG&E correctly classified this advice letter as Tier 3, which requires Commission approval.<sup>3</sup>

## **BACKGROUND**

**The Affiliate Transaction Rules are designed to prevent cross-subsidization of utilities' affiliated activities by ratepayers and minimize harm to the competitive marketplace from the utility's monopoly status and market power.**

The Commission passed the Affiliate Transaction Rules Applicable to Large California Energy Utilities in Decision 97-12-088. Subsequent Decisions modified these Rules.<sup>4</sup> According to Rule II.C.1., no holding company or utility affiliate shall knowingly "direct or cause a utility to violate or circumvent these Rules, including but not limited to the prohibitions against the utility providing preferential treatment, unfair competitive advantages or non-public information to its affiliates."

Pursuant to the ATR VII.E, prior to offering a new category of non-tariffed products or services, a utility is required to file an advice letter which:

- 1) demonstrates compliance with the affiliate transaction rules;
- 2) addresses the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or

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<sup>3</sup> See General Order 96-B, Industry Rule 5.3 (Matters Appropriate to Tier 3 (Effective After Commission Approval.)) "Matters appropriate to Tier 3 are:...(3) Except as provided in Industry Rule 5.1(6), a new product or service." Industry Rule 5.1(6) relates to initial tariffs for a new service by an oil pipeline, and therefore is not applicable here.

<sup>4</sup> D.98-08-035 (8/06/1998); D.98-11-027 (11/05/1998); D.98-12-075 (12/17/1998); D.99-04-069 (4/22/1999); D.99-09-033(9/02/1999); and most recently D.06-12-029 (12/14/2006).

service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;

3) addresses the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market and;

4) is served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission's advice letter process.<sup>5</sup>

**Southern California Gas Company and Pacific Gas & Electric Company have similar nontariffed products and services categories to SDG&E's proposed Field Parts Replacement Service because these categories were essentially "grandfathered" in following the passage of the Affiliate Transaction Rules (ATRs) in 1997.**

ATR VII.E. required a utility to file an advice letter demonstrating certain facts prior to offering a "new category of nontariffed products or services."

Affiliate Transaction Rule VII.F provides that:

"a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost allocation and reporting requirements in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of the Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This

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<sup>5</sup> ATR VII.E; Utility Products and Services.

requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.”

Pursuant to this Rule, Southern California Gas (SoCal Gas) and Pacific Gas & Electric Company (PG&E) both submitted advice letters on January 30, 1998, describing existing products and services offered. On January 30, 1998, Southern California Gas filed A.L. 2669-G for approval of its existing tariffed and nontariffed products and services, including Field Parts Replacement Service which was approved.

Similarly, PG&E filed A.L. 2063-G/1741-E on January 30, 1998, describing a category of programs for “operation, maintenance, repair and construction on third-party facilities.” Since the “category” was already grandfathered in, additional offerings within that “category” did not require Commission approval. Therefore, in 2007 PG&E created the Gas Appliance Parts Replacement Program, which is similar to SDG&E’s proposed Field Parts Replacement Services program.

SDG&E proposes to initiate a program by which its field technicians can sell, install, and repair faulty parts of gas appliances in customers’ homes or businesses in its service territory. This is a significant change from current practice. Currently, if a customer calls SDG&E to investigate a gas appliance issue (*e.g.* suspected leak, broken component part, equipment malfunction, other hazard, etc.), SDG&E field technicians will come to the customer’s premises, inspect the appliances and service to the meter.<sup>6</sup> If there is a hazardous condition, the technician will make it safe by issuing a “caution tag” or by shutting off the appliance or gas to the meter.<sup>7</sup> The technician will advise the customer to either fix the issue themselves or contact a licensed plumber or contractor to complete

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<sup>6</sup> SDG&E Response to CPUC Data Request Dated 11/7/14, at 4.

<sup>7</sup> *Id.* “Caution tagging” means when SDG&E finds a potentially hazardous condition, it is required to fill out a company form that explains the hazardous condition to the customer. *Id.* at 5. The form is completed and the issue is explained in detail. The customer then signs the caution tag and SDG&E provides a copy to the customer and retains a copy for its records. *Id.*

the repair.<sup>8</sup> If gas service has been shut off to the meter, SDG&E must be called again (and return to the customer's premises) to turn gas service back on once the issue has been repaired.<sup>9</sup>

## **NOTICE**

Notice of A.L. 2322-G was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

## **PROTESTS**

Advice Letter 2322-G was protested.

SDG&E's A.L. 2322-G was timely protested by the Pacific Advocacy Group on behalf of the Western Electrical Contractors Association (WECA) and the Plumbing-Cooling Contractors Association of California (CAPHCC).

SDG&E responded to the protests of the Pacific Advocacy Group on September 22, 2014.

The following is a more detailed summary of the major issues raised in the protest.

- SDG&E's proposed program is an "un-warranted intrusion into the market for service and repair work typically performed by licensed contractors."
- SDG&E has a unique relationship with its paying customers and as such, enjoys a distinct advantage against third-parties such as the protesting parties.
- SDG&E should not take advantage of its unique relationship to sell "unrelated products and services."<sup>10</sup>

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<sup>8</sup> *Id.* at 4.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

The following is a summary of SDG&E's Reply:

- The Advice Letter is addressing a specific customer need that can be provided to a very limited number of on-the-spot repairs by the field technician when a gas appliance leak or simple repair is necessary for the continued safe function of the appliance connection.
- SDG&E field technicians will not proactively market this service and will be trained to inform customers of their options of calling a qualified contractor of their choice to perform the repair; this is purely a customer opt-in and not a required service.
- All services provided by SDG&E's field technicians will be monitored for quality and customer feedback to ensure safety, quality and value. If they do not meet the customer service standards, SDG&E will terminate the service.
- The ATRs specifically allow Non-Tariffed Products and Services, provided certain conditions are met. SDG&E argues it meets those conditions.
- SDG&E *does* have a unique relationship with its customers that it honors and continues to develop.
- Customers have communicated to SDG&E that they want solutions from SDG&E that save time, save money or enhance home safety and security.

## **DISCUSSION**

Energy Division has reviewed A.L. 2322-G, Pacific Advocacy Group's protest, and SDG&E's response to the protest. Energy Division also issued data requests to SDG&E to find out more about this proposed program. SDG&E replied promptly to all data requests.

General Order 96-B's Electric Industry Rule 5 describes the matters appropriate for each advice letter Tier. An advice letter which seeks approval of a new product or service is appropriately classified as Tier 3 and requires a Resolution.<sup>11</sup>

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<sup>11</sup> See Electric Industry Rule 5.3 (3).

**SDG&E meets all the conditions precedent prior to offering a new category of Non-Tariffed Products and Services**

Pursuant to the ATR VII D., a utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

- 1) *a mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a nontariffed basis;*
- 2) *a reasonable mechanism for treatment of benefits and revenues derived from offering such products and services;*
- 3) *periodic reporting requirements regarding pertinent information related to nontariffed products and services; and*
- 4) *periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.*<sup>12</sup>

SDG&E will record all of the direct costs and revenues for this program in a unique internal order number to ensure proper accounting procedures are met.<sup>13</sup> SDG&E shareholders will not profit from this program as under SDG&E's proposal, net revenues from the Field Parts Replacement Service program will be applied toward lowering the gas base revenue requirement by increasing Miscellaneous Revenues, thereby reducing rates.<sup>14</sup>

Miscellaneous Revenues are comprised of fees and revenues collected by the utility from non-tariffed sources for the provision of specific products or services, such as the proposed Field Parts Replacement Service program.<sup>15</sup> This proposed revenue mechanism is the same one used at SoCal Gas for its Field Parts Replacement program.<sup>16</sup>

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<sup>12</sup> ATR VII.D.

<sup>13</sup> A.L. 2322-G, at 5.

<sup>14</sup> SDG&E Response to CPUC Data Request dated 11/21/14.

<sup>15</sup> *Id.*

<sup>16</sup> A.L. 2322-G, at 3.

Revenues will be reported annually through the Non-Tariffed Products and Services Transactions Report required by Rule VII.H.<sup>17</sup>

Pursuant to ATR VI.C, the Energy Division will continue to conduct biennial Affiliate Transaction Rule audits, which will include a review of the costs and revenues associated with this program.

Moreover, pursuant to ATR VII.E., prior to offering a new category of non-tariffed products or services, a utility shall file an advice letter which:

- 1) demonstrates compliance with these rules;*
- 2) addresses the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;*
- 3) addresses the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market; and*
- 4) is served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission's advice letter process.<sup>18</sup>*

**1) SDG&E has demonstrated in its advice letter that the proposed Field Parts Replacement Service program complies with the Affiliate Transaction Rules.**

SDG&E asserts the proposed Field Parts Replacement Service program does not violate any laws, regulations, or Commission policies regarding anti-competitive

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<sup>17</sup> A.L. 2322-G, at 3.

<sup>18</sup> ATR VII.E.

practices. Importantly, none of SDG&E's affiliates will participate as service providers for this program.<sup>19</sup>

**2) SDG&E addresses the amount of utility assets dedicated to the non-utility venture, ensuring that the proposed Field Parts Replacement Service program does not threaten the provision of utility service, and shows that the new program will not result in a degradation of cost, quality, or reliability of tariffed goods and services.**

SDG&E states that its existing utility service will not be adversely affected by the implementation of this program.<sup>20</sup> SDG&E explains that during emergencies, its Customer Service Field group will elect to discontinue offering this service so as not to impact critical customer service.<sup>21</sup>

Furthermore, this program will be offered with minimal or no new forms of liability or business risk being incurred by utility ratepayers.<sup>22</sup> Utility assets and labor used to offer this program will be existing field technicians, trucks and tools, call center personnel, and equipment that are already in place to perform current tariffed services.<sup>23</sup> The only additional supplies needed are the replacement parts themselves, plus minor inventory management costs, which is included in the below cost analysis.<sup>24</sup>

SDG&E assures us that this program will neither affect the cost, quality, or reliability of tariffed products and services nor will it unduly divert utility management attention from tariffed utility services.<sup>25</sup> The incremental work

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<sup>19</sup> A.L. 2322-G, at 6.

<sup>20</sup> A.L. 2322-G, at 2.

<sup>21</sup> *Id.*

<sup>22</sup> A.L. 2322-G, at 3.

<sup>23</sup> A.L. 2322-G, at 4.

<sup>24</sup> A.L. 2322-G, at 4

<sup>25</sup> A.L. 2322-G, at 4

involved will be performed by existing workforce and the cost of the incremental work charged to the customers that receive the services provided.<sup>26</sup>

- 3) SDG&E addresses the potential impact of the new product or service on competition in the relevant market, because the proposed program's relatively low expected uptake rate, passive sales approach, and large number of plumbing businesses and licensed contractors in SDG&E service territory suggest that overall market impacts on the relevant market will be minimal.**

SDG&E predicts a relatively low uptake rate of this proposed service (about 2%<sup>27</sup> of eligible field service calls or about 4,600<sup>28</sup> repair transactions per year). SDG&E further estimates revenues of about \$2.1 to 2.3 million over five years with corresponding program costs of \$1.7 to 1.9 million. This amounts to net estimated proceeds of only \$80,000.<sup>29</sup>

As stated by SDG&E, its field technicians will not actively market this product.<sup>30</sup> It will only be an "opt-in" offering when the potential repair is identified by the technician.<sup>31</sup> The field technician will provide customers the option of having SDG&E perform the repair or calling a plumber or contractor of their choice to perform the repair.<sup>32</sup> To avoid any "hard sell" behavior, SDG&E field technicians will not receive any incentives for sales levels achieved in this program and the field technicians' performance will continue to be objectively measured using approved Customer Service Field performance metrics.<sup>33</sup>

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<sup>26</sup> A.L. 2322-G, at 4

<sup>27</sup> A.L. 2322-G, at 6.

<sup>28</sup> A.L. 2322-G, at 3.

<sup>29</sup> A.L. 2322-G, at 3.

<sup>30</sup> A.L. 2322-G, at 6.

<sup>31</sup> A.L. 2322-G, at 6.

<sup>32</sup> A.L. 2322-G, at 6.

<sup>33</sup> A.L. 2322-G, at 2.

There are good reasons why a customer might want SDG&E to perform the repair (*e.g.* good relationship with SDG&E, convenience, timeliness, price, or expertise) and there are good reasons why a customer might prefer a licensed contractor or plumber to perform the repair (*e.g.* good relationship with the contractor/plumber, price, loyalty, or expertise).

California State Employment Development Department (EDD) statistics validate how vibrant and competitive the local markets are for these kinds of repair services.<sup>34</sup> SDG&E customer databases and California EDD estimates for San Diego County in the last census year (2010) show over 500 local plumbing businesses and 5,000 qualified contractors available as alternatives to SDG&E's proposed Field Parts Replacement Service program.<sup>35</sup>

All three of these factors indicate that there will be a minimal negative impact on the relevant competitive marketplace.

**4) Advice Letter 2322-G was served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission's advice letter process**

SDG&E served this advice letter on the service list of Rulemaking 97-04-011/Investigation 97-04-012, via email or U.S. mail, properly stamped and addressed.<sup>36</sup>

**This proposed program will improve safety by giving SDG&E customers the option to have an SDG&E technician repair or replace faulty gas appliance parts.**

There are legitimate safety concerns associated with a customer operating a gas appliances while caution tagged or customers being without gas service for any significant length of time. It is appropriate to provide customers with an option

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<sup>34</sup> A.L. 2322-G, at 6.

<sup>35</sup> A.L. 2322-G, at 6.

<sup>36</sup> A.L. 2322-G, at 7.

to get the problem fixed by the utility technician by allowing SDG&E to initiate its proposed Field Parts Replacement Service program.

Hazardous conditions, including leaking connectors or line valves on gas appliances, will be alleviated more quickly by approving this program.<sup>37</sup> When a gas appliance is turned on when hazardous conditions are in place, fires and/or explosions can occur, which can lead to injuries, death, and destruction of property.<sup>38</sup>

**SoCalGas and PG&E already have programs like this in place.**

Currently, SDG&E does not have a program like this in operation, however its sister company, Southern California Gas Company (SoCal Gas) does have one.<sup>39</sup> In addition, Pacific Gas and Electric Company (PG&E) has a similar program.<sup>40</sup>

**COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment

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<sup>37</sup> SDG&E Response to CPUC Data Request Dated 11/7/14, at 3-4.

<sup>38</sup> *Id.*

<sup>39</sup> See A.L. 2669-G, filed January 30, 1998, to comply with Section F of Rule VII of the ATRs first promulgated in D.97-12-088. The requirement was for each respondent energy utility, no later than January 30, 1998, to submit an advice letter describing the existing tariffed and non-tariffed products and services offered by the utility as of the effective date of the Decision (December 1, 1997). SoCal Gas' program is called "Sale and Installation of Parts for Customer-Owned Gas Appliances and Equipment."

<sup>40</sup> From an email from Dean Mortensen, PG&E, dated November 7, 2014: "PG&E's New Revenue Development section has a similar program that it calls the Gas Appliance Parts Replacement Program (APRP). The program was created in 2007. APRP is part of PG&E's Non-Tariffed Products and Services Catalogue, Category N.C.10, which is for operation, maintenance, repair and construction on third-party facilities. The Non-Tariffed Products and Services Catalogue was filed in Advice 2063-G/1741-E (filed on January 30, 1998 in compliance with Rule VII.F. of the Affiliate Transaction Rules in D.97-12-088)." Therefore, this category of product or service was already in existence at PG&E when the ATRs were passed.

prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

The Commission received no Comments on this Resolution.

## **FINDINGS**

1. Under current rules, if an SDG&E customer calls SDG&E to report an issue with a gas appliance, SDG&E will send a field technician out to the customer's premises to inspect the appliance, house lines, and service to the meter. If the technician finds a hazardous condition, the technician will make it safe by issuing a "caution tag" or by shutting off the appliance or gas to the meter.
2. If a customer disregarded SDG&E's recommendation not to use a problematic gas appliance tagged as hazardous, the customer risks starting a fire or illness or death resulting from carbon monoxide poisoning.
3. Under the proposed Field Parts Replacement Service on a Non-Tariffed Basis program, the technician would offer customers the option to have the utility technician perform the needed repairs related to their gas appliances at the premises. The service will cover sales and installation of parts for gas appliances and equipment owned by SDG&E customers, including, but not limited to: gas line valves, connectors, thermocouples, filters, control valves, and pilot generators.
4. This program could have improved safety impacts.
5. Similar service programs are already in place at SoCal Gas and PG&E, the other two large investor-owned gas utilities in California.
6. Given that only an estimated 2% of eligible field service calls will result in a sale of a product or service under this program, along with the passive

sales approach, and the large number of local plumbing businesses and qualified contactors in SDG&E service territory, minimal overall market impact is expected.

7. SDG&E shareholders will not profit from this program as under SDG&E's proposal, net revenues from the Field Parts Replacement Service program will be applied toward lowering the gas base revenue requirement by increasing Miscellaneous Revenues, thereby reducing rates.

**THEREFORE IT IS ORDERED THAT:**

1. The request of SDG&E to establish a Field Parts Replacement Service program on a Non-Tariffed Basis, as requested in Advice Letter 2322-G is approved.
2. SDG&E shall ensure proper training of its field technicians to make sure the parts are repaired and installed safely.
3. SDG&E shall report all costs and revenues of this program in accordance with the NTP&S Rules outlined in ATR VII., to prevent cross-subsidization of non-ratepayer activities with ratepayer money and to minimize the impact on the competitive marketplace.
4. SDG&E shall apply 100% of the net revenue from this program toward its "Miscellaneous Revenue," line item and use it to reduce its revenue requirement for each subsequent general rate case.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on July 23, 2015, the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director